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C O N F I D E N T I A L SECTION 01 OF 02 TEL AVIV 001896

SIPDIS

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TAGS: [ECON IS ECONOMY AND FINANCE GOI INTERNAL](#)

SUBJECT: SHINUI DECISION VIRTUALLY ASSURES PASSAGE OF 2005 BUDGET -- FOR A PRICE

Classified By: ECONOMIC COUNSELOR WILLIAM WEINSTEIN FOR REASONS 1.4 (B, D)

1. (C) Summary. Prime Minister Sharon appears to have finally secured passage of the 2005 budget. On Saturday March 26, PM Sharon and Shinui Knesset members Yosef (Tommy) Lapid and Avraham Poraz reached agreement that Shinui would support the second and third readings of the 2005 budget in the Knesset the week of March 28. In exchange, Sharon pledged NIS 700 million for key Shinui budgetary priorities including support for universities, science, culture, environmental causes, and citizen-soldier reservists. The press reports that this is part of a package of around NIS 1.6 billion that will be paid to political parties to garner their support of the budget.

2. (C) The view from the economic side has been positive: as one Bank of Israel official told us, the most important objective was to pass the budget. A contact in the Finance Ministry's Budget Department said the Shinui deal would not bust the budget, although it was likely to require another round of across-the-board cuts in ministerial budgets. The deal's real significance, of course, lies in the fact that Sharon and his disengagement plan have just dodged the bullet of new elections. End Summary.

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Follow the Money  
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3. (U) According to press reports over the past month, the GOI has doled out a significant amount of money to secure budget passage. In addition to the money now committed to Shinui, the GOI has promised the following amounts for other budgetary priorities:

-- United Torah Judaism won NIS 290 million as the price for joining the coalition. The funds will be used for increasing the budget of Orthodox Jewish religious institutions. Ironically, it was the provision of these funds that led Shinui to quit the government at the time of the first budget reading in November 2004.

-- Labor won NIS 700 million as the price for the Labor Party's agreement to join the Coalition. These funds will pay for the cancellation of cuts in allowances to the elderly, increased support for Negev and Galilee development, as well as increased support for health care.

-- On March 24th the GOI agreed to re-allocate an additional NIS 150 million for health services.

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Lapid Changes Course and Suffers Accordingly  
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4. (C) Shinui's Lapid has come under withering criticism for his changing stance on the budget. There have also been no shortage of news stories regarding internal strife within the Shinui party itself. Lapid has not responded well to the pressure, issuing conflicting statements about the reasons for his changing views. On March 15, for instance, he told Israel Radio that officials in Washington were pressuring his party to support the budget.

5. (C) In view of his 180-degree course change over the last weekend, Lapid was careful to cover his flank with members of the party. According to Shinui MK Ilan Leibowitch, Lapid called all Shinui MKs Saturday morning to discuss the potential deal with them. Leibowitch says he told Lapid "You can take the money and vote for it, or pass on the money and abstain, but don't vote against the budget."

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Others also not too happy with Lapid  
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6. (C) The PM's deal with Shinui has caused consternation amongst those whose own budgetary and political priorities may suffer as a result. Shas rejected all proposed attempts to find alternatives to cuts in child allowances that they claimed would enable the party to support the budget. MK Eli Yishai, head of Shas, rejected all proposals, and adhered continuously to the position that the budget did not provide solutions to the problems of poverty and distress in weaker

sectors of the economy. Shas MK Meshulam Nahari told political officer that he was very angry about the Sharon - Lapid deal, charging that the deal would come at the cost of suffering children and people who can't afford medications. Nahari very matter-of-factly noted that, as a result of the deal, "the government won't fall, the budget will pass," but added that Shas would "find other opportunities to bring down the government."

17. (C) Some claimed that Lapid had made a long-term tactical error in making the deal. Labor MK Michael Melchior, for instance, told political officer that Lapid had "become the laughing stock of the country" for repeatedly promising to vote against the budget, only to drop his objections in the end.

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The Economists' View: Budget Passage Worth the Compromises  
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18. (C) On the economic side, most observers thought the deal made sense and were not overly concerned about the cost to the overall budget. Finance Ministry Deputy Budget Director Yossi Gordon said that the GOI would maintain the budgetary framework, in spite of the new obligations to Shinui: "We'll just go back to the Ministries with another 3% across-the-board cut..." The Bank of Israel's Research Director, Karnit Flug, said that she is neither surprised that Shinui ended up deciding to support the budget nor surprised that it obtained quite a bit for its yea vote. She also said she was confident the GOI could find a way to pay for the Shinui deal without breaking the budget.

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Comment: It's the Disengagement, Stupid  
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19. (C) When all is said and done, however, the real significance of the Lapid-Sharon deal is not economic. Passage of the budget means that Sharon can pursue disengagement unencumbered by fears of new elections.

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